

Nippon Life India Asset Management

Cost optimization to drive earnings

NAM has been able to stabilise its equity market share over the past two quarters to 7.0%. We expect it to focus on improving performance and continue to recoup its lost market share. Additionally, we expect the company to benefit from increased credibility to raise HNI/institutional capital. Driven by cost optimization, we increase our estimates and now expect the company to deliver an FY21-23E revenue/NOPLAT CAGR of 12.6/16.9%. We upgrade the stock one notch to ADD with a target price of Rs 335, valuing the stock at 36x Sep-22E NOPLAT + cash and investments. The stock is currently trading at FY22E/23E EV/NOPLAT of 37.1/30.1 and P/E of 32.6/26.9x.

- 3QFY21 highlights:** Revenue at Rs 2.69bn (-11.4%/+3.8% YoY/QoQ) was 4.1% below estimates. Equity QAAUM market share was stable at 7.0% (-6bps QoQ) whereas debt QAAUM market share dropped 79bps QoQ to 6.6%. Over the past nine months, equity/debt market shares have dropped 122/101 bps, which remains a concern. Core operating profit at Rs 1.38bn, 1.5/8.5% YoY/QoQ was 5.1% below estimates, mainly as a result of lower revenue, partially offset by lower staff costs. Management stated that cost savings would continue as ESOP costs would not grow. Recovery in equity markets resulted in treasury income of Rs 1.30bn (+126.7/104.7% YoY/QoQ) and drove APAT to Rs 2.12bn (+42.0/45.9% YoY/QoQ).
- NAM's equity performance has lagged that of peers. Management is focused on improving the same through diversifying and having improved risk management. It is looking to raise overseas assets using Nippon Life's network; this could be meaningful over the medium term.
- Outlook:** We have finetuned our estimates to build in higher other income. We expect a gradual recovery in assets and earnings. For FY21E, we expect revenue/EBIT to decline by 12.0/8.3% YoY respectively.

Financial Summary

(Rs bn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	2.68	3.03	-11.4	2.59	3.8	14.8	12.0	10.6	11.9	13.4
Operating profits	1.38	1.36	1.5	1.27	8.5	5.3	5.7	5.2	6.1	7.3
OP Margin (%)	51.8	45.5	632bps	49.7	220bps	35.8	47.3	49.5	51.3	54.6
APAT	2.12	1.49	42.0	1.45	45.9	4.9	4.2	6.7	6.1	7.4
EV/NOPLAT (x)						48.0	41.4	42.7	37.1	30.1
P/E (x)						40.0	47.8	29.5	32.6	26.9
ROE (%)						19.5	16.1	24.6	20.4	22.3

Source: Company, HSIE Research

Change in estimates

(Rs bn)	FY21E			FY22E			FY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)	Revised	Old	Change (%)
Revenues	10.6	10.6	0.0	11.9	12.3	-3.6	13.4	13.4	-0.3
EBIT	5.3	5.1	4.2	6.2	6.2	-1.4	7.4	6.8	7.8
EBIT margin (%)	49.9	47.9	201bps	51.7	50.5	116bps	55.0	50.9	410bps
NOPLAT	4.0	3.8	6.8	4.6	4.7	-1.4	5.5	5.1	7.8
APAT	6.7	5.9	15.1	6.1	6.0	1.8	7.4	6.7	10.2
RoE (%)	24.6	21.7	287bps	20.4	20.5	-9bps	22.3	21.0	139bps

Source: Company, HSIE Research

ADD

CMP (as on 27 Jan 2021)	Rs 318
Target Price	Rs 335
NIFTY	13,968

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	Rs 320	Rs 335
EPS %	FY21E	FY22E
	15.1%	+1.8%

KEY STOCK DATA

Bloomberg code	NAM IN
No. of Shares (mn)	613
MCap (Rs bn) / (\$ mn)	194/2,665
6m avg traded value (Rs mn)	308
52 Week high / low	Rs 453/201

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	16.0	17.3	(13.5)
Relative (%)	(2.1)	(7.0)	(27.4)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	75.0	75.8
FIs & Local MFs	6.3	6.6
FPIs	5.1	5.4
Public & Others	13.6	12.2
Pledged Shares	Nil	Nil

Source : BSE

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